

Health Coverage Tax Credit

► Attach to Form 1040 or Form 1040NR.

2004Attachment
Sequence No. **134**

Name of recipient (if both spouses are recipients, complete a separate form for each spouse)

Recipient's social security number

Before you begin: See **Definitions and Special Rules** that begin on page 2.**CAUTION****Do not** complete this form if you can be claimed as a dependent on someone else's 2004 tax return.**Part I Complete This Part To See if You Are Eligible To Take This Credit**

- 1 Check the boxes below for each month in 2004 that **all** of the following statements were **true** on the **first day** of that month.
- You were an eligible trade adjustment assistance (TAA) recipient, alternative TAA recipient, or Pension Benefit Guaranty Corporation (PBGC) pension recipient.
 - You were covered by a qualified health insurance plan for which you paid the premiums.
 - You were **not** entitled to Medicare Part A or enrolled in Medicare Part B.
 - You were **not** enrolled in Medicaid or State Children's Health Insurance Program (SCHIP).
 - You were **not** enrolled in the Federal Employees Health Benefits Program or eligible to receive benefits under the U.S. military health system (TRICARE).
 - You were **not** imprisoned under Federal, state, or local authority.
 - You were **not** covered by, or eligible for coverage under, any employer-sponsored health insurance plan (see instructions on page 3).

☐ January ☐ February ☐ March ☐ April ☐ May ☐ June

☐ July ☐ August ☐ September ☐ October ☐ November ☐ December

Part II Health Coverage Tax Credit

- 2 Amount paid for qualified health insurance coverage for all months checked on line 1 (see instructions on page 4). Include advance payments, if any, from Form 1099-H, box 1

Note. You **must** attach invoices and proof of payment for any amounts included on line 2 for which you did not receive an advance payment (see instructions on page 4).

- 3 Enter the total amount of any **(a)** Archer MSA and health savings account distributions used to pay amounts included on line 2 and **(b)** National Emergency Grants you received for health insurance in 2004

- 4 Subtract line 3 from line 2. If zero or less, **stop**; you cannot take the credit

- 5 Multiply line 4 by 65% (.65) and enter the result

- 6 Advance payments, if any, from Form 1099-H, box 1

- 7 **Health coverage tax credit.** Subtract line 6 from line 5. If zero or less, enter -0-. Also include on Form 1040, line 69, or Form 1040NR, line 63, and check box **c** on that line

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Use Form 8885 to figure the amount, if any, of your health coverage tax credit (HCTC).

Who Can Take This Credit

You can take this credit only if (a) you were an eligible trade adjustment assistance (TAA) recipient, alternative TAA recipient, or Pension Benefit Guaranty Corporation (PBGC) pension recipient in 2004, (b) you cannot be claimed as a dependent on someone else's 2004 tax return, and (c) you met all of the other conditions listed on line 1. If you cannot be claimed as a dependent on someone else's 2004 tax return, complete Form 8885, Part I, to see if you are eligible to take this credit.

Definitions and Special Rules

TAA Recipient

You were an eligible TAA recipient on the first day of the month if, for any day in that month or the prior month, you:

- Received a trade readjustment allowance, or
- Would have been entitled to receive such an allowance except that you had not exhausted all rights to any unemployment insurance (except additional compensation that is funded by a state and is not reimbursed from any federal funds) to which you were entitled (or would be entitled if you applied).

Example. You received a trade readjustment allowance for January 2004. You were an eligible TAA recipient on the first day of January and February.

Alternative TAA Recipient

You were an eligible alternative TAA recipient on the first day of the month if, for that month or the prior month, you received benefits under an alternative trade adjustment assistance program for older workers established by the Department of Labor.

Example. You received benefits under an alternative trade adjustment assistance program for older workers for October 2004. The program was established by the Department of Labor. You were an eligible alternative TAA recipient on the first day of October and November.

PBGC Pension Recipient

You were an eligible PBGC pension recipient on the first day of the month, if both of the following apply.

- You were age 55 or older on the first day of the month.
- You received a benefit for that month that was paid by the PBGC under title IV of the Employee Retirement Income Security Act of 1974 (ERISA).

Qualified Health Insurance Plan

A qualified health insurance plan is any of the following.

1. Coverage under a group health plan available through the employment of your spouse. But see the instructions for line 1 on page 3.

2. Coverage under individual health insurance if you were covered under individual health insurance during the entire 30-day period ending on the date you were separated from your job that qualified you for TAA, alternative TAA, or PBGC pension benefits. Individual health insurance does not include any insurance connected with a group health plan or federal- or state-based health insurance coverage. For example, Medicare supplemental insurance (Medigap) is not a qualified health insurance plan.

3. Coverage under a COBRA continuation provision (as defined in section 9832(d)(1)).

4. State-based continuation coverage provided by the state under a state law that requires such coverage.

5. Coverage offered through a qualified state high risk pool (as defined in section 2744(c)(2) of the Public Health Service Act).

6. Coverage under a health insurance program offered for state employees.

7. Coverage under a state-based health insurance program that is comparable to the health insurance program offered for state employees.

8. Coverage through an arrangement entered into by a state and (a) a group health plan (including such a plan which is a multiemployer plan as defined in section 3(37) of ERISA), (b) an issuer of health insurance coverage, (c) an administrator, or (d) an employer.

9. Coverage offered through a state arrangement with a private sector health care coverage purchasing pool.

10. Coverage under a state-operated health plan that does not receive any federal financial participation.

A qualified health insurance plan does not include any of the following.

- Any state-based coverage listed in (4) through (10) above unless it also meets the requirements of section 35(e)(2).
- A flexible spending or similar arrangement.
- Any insurance if substantially all of its coverage is of excepted benefits described in section 9832(c).

If you are not sure whether your health insurance plan is a qualified health insurance plan, go to www.irs.gov and enter IRS Keyword "HCTC."

Qualifying Family Member

A qualifying family member is:

- Your spouse (but see *Married Persons Filing Separate Returns* on page 3), or
- Anyone whom you can claim as a dependent (but see *Exception for Children of Divorced or Separated Parents* on page 3).

For any month that you are eligible to claim the HCTC, you can include premiums paid for a qualifying family member for that month if all of the following statements were true as of the first day of that month.

- The qualifying family member was covered by a qualified health insurance plan for which you paid the premiums.
- The qualifying family member was not entitled to Medicare Part A or enrolled in Medicare Part B.
- The qualifying family member was not enrolled in Medicaid or State Children's Health Insurance Program (SCHIP).

- The qualifying family member was not enrolled in the Federal Employees Health Benefits Program or eligible to receive benefits under the U.S. military health system (TRICARE).
- The qualifying family member was not covered by, or eligible for coverage under, any employer-sponsored health insurance plan (see the instructions for line 1 on this page).

Married Persons Filing Separate Returns

Your spouse is not treated as a qualifying family member if your filing status is married filing separately and either (1) or (2) next apply.

1. Your spouse also was an eligible TAA recipient, alternative TAA recipient, or PBGC pension recipient in 2004, or
2. All of the following apply:
 - a. You lived apart from your spouse during the last 6 months of 2004.
 - b. A qualifying family member (other than your spouse) lived in your home for more than half of 2004.
 - c. You provided over half of the cost of keeping up your home.

Exception for Children of Divorced or Separated Parents

If you were divorced, legally separated, or lived apart from the other parent during the last 6 months of 2004, you may be able to take the credit based on amounts paid for qualified health insurance expenses of your child even if your child is not your dependent. If your child is not your dependent, he or she is a qualifying family member only if all of the following apply.

1. You had custody of the child for a longer time in 2004 than the other parent. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for the definition of custody.
2. One or both of the parents provided over half of the child's support in 2004.
3. One or both of the parents had custody of the child for more than half of 2004.
4. The other parent claims the child as a dependent because:
 - a. As the custodial parent, you signed Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents, or a similar statement agreeing not to claim the child's exemption for 2004, or
 - b. Your divorce decree or written agreement went into effect before 1985 and it states that the other parent can claim the child as a dependent, and the other parent gave at least \$600 for the child's support in 2004. But this rule does not apply if your decree or agreement was changed after 1984 to state that the other parent cannot claim the child as a dependent.

If this exception applies, the other parent cannot treat the child as a qualifying family member for purposes of the HCTC, even though that parent claims the child as a dependent.

If you can treat the child as a qualifying family member for purposes of the HCTC, even though you do not claim the child as your dependent, the child must also meet all of the other conditions of a qualifying family member that begin on page 2.

Specific Instructions

Line 1

Employer-sponsored health insurance plan. You cannot claim the HCTC for any month that, on the first day of the month, either (1) or (2) below apply.

1. You were covered under any employer-sponsored health insurance plan (except insurance substantially all of the coverage of which is of excepted benefits described in section 9832(c)) and the employer paid 50% or more of the cost of the coverage.

2. You were an alternative TAA recipient and either of the following apply.

a. You were eligible for coverage under any qualified health insurance plan (other than the plans listed under (3), (4), or (8) in the definition of *Qualified Health Insurance Plan* on page 2) where the employer would have paid 50% or more of the cost of the coverage, or

b. You were covered under any qualified health insurance plan (other than the plans listed under (3), (4), or (8) in the definition of *Qualified Health Insurance Plan* on page 2) and the employer paid any part of the cost of the coverage.



Any amounts contributed to the cost of coverage by you or your spouse on a pre-tax basis are considered to have been paid by the employer.

Check the boxes on line 1 for each month that, on the first day of the month, (a) both (1) and (2) above do not apply, and (b) you met all of the other conditions listed on line 1.

Example 1. On October 1, 2004, your only health insurance coverage was under an employer-sponsored health insurance plan. The plan is not one in which substantially all of the coverage of which is of excepted benefits described in section 9832(c). The employer paid 40% of the cost of the coverage. You paid 20% of the cost of the coverage through pre-tax contributions. You cannot claim the HCTC for the month of October because the employer is considered to have paid 60% of the cost of the coverage.

Example 2. Assume the same facts as in *Example 1* except that the employer paid only 25% of the cost of the coverage. The employer is considered to have paid 45% of the cost of the coverage (25% that was paid by the employer plus 20% that you paid through pre-tax contributions). If you were an eligible TAA recipient or PBGC pension recipient, you can claim the HCTC for the month of October if you met all the other conditions listed on line 1 on October 1, 2004. If you were an alternative TAA recipient, you can claim the HCTC for the month of October only if, on October 1, 2004, all of the following apply.

- You were not eligible for coverage under any qualified health insurance plan (other than the plans listed under (3), (4), or (8) in the definition of *Qualified Health Insurance Plan* on page 2) where the employer would have paid 50% or more of the cost of the coverage.
- The plan was a type of plan listed under (3), (4), or (8) in the definition of *Qualified Health Insurance Plan* on page 2.
- You met all of the other conditions listed on line 1.

Line 2

Enter the total amount of insurance premiums paid for coverage for you and all qualifying family members under a qualified health insurance plan for all months checked on line 1. Include advance payments, if any, from Form 1099-H, box 1.



CAUTION If your qualified health insurance plan covers anyone other than you and your qualifying family members, see Pub. 502, Medical and Dental Expenses (Including the Health Coverage Tax Credit), before completing line 2.

You must attach invoices and proof of payment (for example, canceled checks, bank statements, or credit card statements) for any amounts included on line 2 for which you did not receive an HCTC advance payment.

If your qualified health insurance plan is through your spouse's employer, proof of payment should include: (a) copies of paycheck stubs showing the health coverage deductions for the qualified months, and (b) a letter or other statement from your spouse's employer that states the employer contributed less than 50% of the cost of the coverage.

If you received an advance payment, Form 1099-H will show the amount of the advance payment and the month(s) for which you received it. If you received an advance payment, you can use the worksheet below to help figure the total amount of health insurance premiums that should be shown on your attached invoices and proof of payment.

Example 1. You are eligible to claim the HCTC for October and November. You paid \$500 of qualified health insurance premiums in each month for yourself and \$250 for your qualifying family members. The amount on Form 8885, line 2, is \$1,500 (\$750 for October and \$750 for November). You did not receive any HCTC advance payments during 2004. You must attach invoices and proof of payment for you and your qualifying family members totaling \$1,500. The invoices and proof of payment should be for October and November.

Example 2. Assume the same facts as in *Example 1* except that you received an advance payment for the qualified health insurance premiums for you and your qualifying family members for the month of November. Form 1099-H shows a total advance payment in box 1 of \$487.50. Form 1099-H also shows that the total advance payment was paid for November. You would enter \$1,500 on line 1 of the Invoice and Proof of Payment Worksheet below. You would enter \$487.50 on line 2 (the amount from Form 1099-H, box 1). You would enter \$750

on line 3 ($\$487.50 \times 1.5385$) and \$750 on line 4 ($\$1,500 - \750). You must attach invoices and proof of payment totaling \$750. The invoices and proof of payment should be for October and should be for qualified health insurance premiums paid for you and your qualifying family members.

Example 3. Assume the same facts as in *Example 1* except that you received an advance payment for your qualified health insurance premiums for the months of October and November. You did not receive any advance payments for the amounts paid for qualified health insurance coverage for your qualifying family members. Form 1099-H shows a total advance payment in box 1 of \$650. Form 1099-H also shows that the advance payment was made up of \$325 that was paid for October and \$325 that was paid for November. You would enter \$1,500 on line 1 of the Invoice and Proof of Payment Worksheet below. You would enter \$650 on line 2 (the amount from Form 1099-H, box 1). You would enter \$1,000 on line 3 ($\650×1.5385) and \$500 on line 4 ($\$1,500 - \$1,000$). You must attach invoices and proof of payment totaling \$500. The invoices and proof of payment should be for October and November and should be for qualified health insurance premiums paid for your qualifying family members.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 13 min.; **Learning about the law or the form**, 15 min.; **Preparing the form**, 11 min.; **Copying, assembling, and sending the form to the IRS**, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040 or Form 1040NR.

Invoice and Proof of Payment Worksheet—Line 2

(keep for your records)



- | | |
|---|----------|
| 1. Enter the amount from Form 8885, line 2 | 1. _____ |
| 2. Enter the amount from Form 1099-H, box 1 | 2. _____ |
| 3. Multiply line 2 by 1.5385 and enter the result | 3. _____ |
| 4. Subtract line 3 from line 1. Attach invoices and proof of payment totaling this amount | 4. _____ |